

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-05-0718

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

March 12, 2007

1	INTRODUCTION	1
2	RUCO'S SURREBUTTAL COMMENTS	2
3		

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on January 24, 2007, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission") on Arizona-American Water Company's ("Arizona-American," "AAW" or the "Company") Revised Application filed with the Commission on September 1, 2006. On February 21, 2007 I filed rebuttal testimony on behalf of RUCO.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my surrebuttal testimony is to comment on Arizona-American's rebuttal testimony filed on February 21, 2007.

Q. Has RUCO changed any of its original positions on the Company's request for an accounting order and an increase in the existing hook-up fees ("hook-up fees" or "HUF") to finance the construction of the White Tanks Plant?

A. No. RUCO has not changed its original position on either the Company-requested accounting order or the hook-up fees as proposed in the

1 Revised Application. RUCO still believes that the Company's Option 2 will
2 result in less AFUDC accruals than will Option 1, and is therefore still
3 preferable.

4
5 Q. Does RUCO still believe that certain aspects of the Revised Application
6 need clarification?

7 A. Yes. This issue is the subject of my surrebuttal testimony.

8

9 **RUCO'S SURREBUTTAL COMMENTS**

10 Q. Have you had an opportunity to read the Company's rebuttal testimony?

11 A. Yes. I have read the rebuttal testimony of Company witnesses Thomas
12 M. Broderick, G. Troy Day and Joseph E. Gross.

13

14 Q. Please summarize your surrebuttal comments.

15 A. My surrebuttal comments will focus on the Company-proposed formula
16 that will reduce the water facilities hook-up fees if Arizona-American sells
17 or otherwise commits capacity in the planned White Tank Plant. The
18 formula is discussed on pages 6 through 8 in the rebuttal testimony of
19 Company witness Broderick.

20

21

22 ...

23

1 Q. What was RUCO's position on this issue prior to filing surrebuttal
2 testimony?

3 A. RUCO's position was that Arizona-American needed to clarify how the
4 hook-up fee would be modified in the event that a third party purchases
5 capacity in the treatment plant. The Company-proposed formula was
6 intended to satisfy RUCO's concerns. RUCO also requested that the
7 Commission indicate in its decision on the Revised Application that it was
8 not predetermining the appropriateness of any such modifications to the
9 hook-up fee or the appropriateness of any request for a mechanism to
10 recover operation and maintenance costs.

11
12 Q. Please describe the Company-proposed formula.

13 A. The Company-proposed formula is as follows:

14
15
$$\text{Adjusted HUF} = \text{New HUF} - 0.75 [(\text{New HUF} - \text{Current HUF}) * (1 -$$

16
$$\text{AAW Cap/Plant Cap})]$$

17 Where:

18 **Adjusted HUF** = Reduced Agua Fria Water Facilities Hook-up Fee

19
20 **New HUF** = Agua Fria Water Facilities Hook-up Fee approved
21 by the ACC as per this application

22
23 **Current HUF** = Current Agua Fria Water Facilities Hook-up Fee

24
25 **AAW Cap** = Arizona-American's share of total White Tanks
26 Plant Capacity

27
28 **Plant Cap** = Total White Tanks Plant Capacity

29
30 **0.75** = AAW Incentive Adjustment

1 Q. What is RUCO's position on the Company-proposed formula?

2 A. RUCO is opposed to the 0.75 AAW incentive adjustment included in the
3 Company-proposed formula. RUCO believes that there is no need for this
4 adjustment because the accounting order being requested by the
5 Company would keep Arizona-American whole. The proposed incentive
6 adjustment would simply keep the hook-up fee at a higher level than what
7 it needs to be.

8
9 Q. Can you provide an example of this?

10 A. Yes. I will use the same numbers and hypothetical situation used by Mr.
11 Broderick on page 7 of his rebuttal testimony. The following is an example
12 of what the adjusted hook-up fee would be with the Company-proposed
13 0.75 AAW incentive adjustment:

14
15
$$\text{Adjusted HUF} = \$3,200 - 0.75 [(\$3,200 - \$1,150) * (1 - 0.5)]$$

16
$$= \$3,200 - 0.75 [\$2,050 * 0.5]$$

17
$$= \$3,200 - \$768.25$$

18
$$= \underline{\underline{\$2,431.75}}$$

19
20 Without the 0.75 AAW incentive adjustment, the adjusted hook-up fee
21 would be as follows:

22

23

$$\begin{aligned}\text{Adjusted HUF} &= \$3,200 - [(\$3,200 - \$1,150) * (1 - 0.5)] \\ &= \$3,200 - [\$2,050 * 0.5] \\ &= \$3,200 - \$1,025 \\ &= \underline{\underline{\$2,175}}\end{aligned}$$

As can be seen above, the formula containing the Company-proposed 0.75 AAW incentive adjustment results in an adjusted hook-up fee that is \$256.75 higher than what the formula without it produces.

Q. What is the Company's rationale for the 0.75 AAW incentive adjustment?

A. Mr. Broderick states that the 0.75 AAW incentive adjustment would provide the Company with an incentive to secure capacity agreements by reducing the amount and duration of shortage in capital expenses as compared to hook-up fees.

Q. Do you agree with this rationale?

A. No. I believe that the adage "if you build it, they will come" is applicable in this instance and that the Company does not need any such incentive. The very fact that this proceeding revolves around two competing interests that are trying to build the same type of facility is proof that a demand for surface water treatment capacity already exists in the White Tanks area.

1 Q. Can you provide any support for your belief that a demand for surface
2 water treatment capacity already exists in the White Tanks area?

3 A. Yes. On December 29, 2006, Arizona Water Company ("AWC") filed a
4 water use plan (as required under Decision No. 68302, dated November
5 14, 2005), which addresses how CAP water will be used within its White
6 Tank water system. On page 8 of its water use plan filing, AWC stated
7 that it has been "actively pursuing alternatives for obtaining delivery and
8 treatment of its White Tank water system CAP water allocation." AWC
9 went on to state that in 2005, AWC representatives met with Arizona-
10 American representatives regarding AWC securing treatment capacity in
11 the Company-proposed White Tank Plant. AWC also stated that it was
12 investigating the possibility of obtaining treatment capacity from MWD.
13 AWC's filing also supported MWD's statement on page 5 of its direct
14 testimony that MWD is open to providing service to other water providers
15 in the White Tanks area. It is clear from AWC's filing that buyers for
16 surface water treatment capacity are already interested in negotiating a
17 deal with Arizona-American.

18
19
20
21
22 ...
23

1 Q. Does RUCO's recommendation to reject the Company-proposed 0.75
2 AAW incentive adjustment conflict with its position that the Company's
3 Option 2 is more preferable because it will result in less AFUDC accruals
4 than will Option 1?

5 A. No. RUCO simply believes that the owners of record who are subject to
6 the hook-up fee should not have to pay more than what is necessary. If
7 the Commission adopts the Company-proposed accounting order, as
8 RUCO is recommending, Arizona-American will be made whole and will
9 recover whatever shortages it incurs.

10

11 Q. Does this conclude your surrebuttal testimony on Arizona-American's
12 rebuttal testimony?

13 A. Yes.